

**CITY OF LAKE FOREST
REDEVELOPMENT AGENCY
Lake Forest, California**

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2009

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2009

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CITY OF LAKE FOREST REDEVELOPMENT AGENCY

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2009

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Board of Directors
City of Lake Forest Redevelopment Agency
Lake Forest, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Lake Forest Redevelopment Agency (Agency), a component unit of the City of Lake Forest, California, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These component unit financial statements are the responsibility of the management of the Agency. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the City of Lake Forest Redevelopment Agency for the year ended June 30, 2008 and, in our report dated December 23, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2009, and the respective changes in financial position and the budgetary comparison for the special revenue fund of the Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Board of Directors
City of Lake Forest Redevelopment Agency
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2009 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mary Hoffman McCune A.C.

Irvine, California
December 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lake Forest Redevelopment Agency ("Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2009. It is encouraged that the readers consider the information presented here in conjunction with additional information that has been furnished in the accompanying basic financial statements.

Financial Highlights

Government-Wide

- Assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$7 million (net assets).
- The Agency's total net assets increased by \$2.3 million. This increase was primarily attributable to revenues in excess of expenses.
- Total revenues from all sources were \$3.8 million as compared to the total cost for all Agency programs of \$1.5 million. Further discussion of revenues and expenses is included in the Government-wide Financial Analysis section.
- The Agency's only debt is a promissory note payable to the City of Lake Forest. For the fiscal year just ended, the amount of the promissory note was \$1.1 million.

Fund Based

- Total governmental fund balances were \$8 million with minimal reserved balances. Designations of fund balances, such as amounts set aside for carryover appropriations and amounts due to other agencies totaled \$0.6 million. Total unreserved, undesignated balances were \$7.4 million.
- Total governmental fund balances increased \$2.2 million. This increase is attributable to a favorable variance of revenues as compared to expenditures. Further discussion of revenues and expenditures is included in the Financial Analysis of the Government's Funds section.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. These statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. In time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information on how the Agency's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods; (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements include only the Agency itself.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The Agency uses only governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the Low and Moderate Income Housing Fund, the Capital Projects Fund, and the Debt Service Fund. All three are considered to be major funds. There are no non-major funds.

The Agency adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided for each of the budgeted funds to demonstrate compliance with the budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary Information. The Debt Service Fund and Capital Projects Fund Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual are presented as well as a schedule of the Computation of the Low and Moderate Income Housing Fund – Excess Surplus.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$7 million at the close of the most recent fiscal year. The unrestricted net assets balance of \$3.2 million may be used to meet the Agency's ongoing obligations to citizens and creditors.

Table 1
Net Assets
(in thousands)

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Current and other assets	<u>\$8,286</u>	<u>\$6,053</u>
Total assets	<u>8,286</u>	<u>6,053</u>
Long-term debt outstanding	<u>1,138</u>	<u>1,138</u>
Other liabilities	<u>141</u>	<u>238</u>
Total liabilities	<u>1,279</u>	<u>1,376</u>
Net assets:		
Restricted	<u>3,817</u>	<u>3,004</u>
Unrestricted	<u>3,190</u>	<u>1,673</u>
Total net assets	<u>\$7,007</u>	<u>\$4,677</u>

The Agency's net assets increased by \$2.3 million during the current fiscal year. Key elements of this increase are as follows:

- Total revenues were \$3.8 million as compared to prior year revenues of \$3.4 million. The increase of \$0.4 million in revenues was primarily due to a 24% increase in tax increment related to the previous healthy real estate market and redevelopment along El Toro Road. The Agency receives tax increment revenues from the County of Orange one year in arrears, thus revenues were not as affected by the ongoing recession in the current year. Investment earnings decreased by 38% from the prior year, a result of the financial crisis and rapidly declining yields on investments.
- Total costs for all Agency programs were \$1.5 million as compared to prior year costs of \$1.7 million. The majority of this \$0.2 million decrease was due to prior year purchase of property, offset by a current year payment related to a covenant agreement. The remaining offsetting variances were small among the categories depending on activity occurring during the fiscal year.

Table 2
Changes in Net Assets
(in thousands)

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Revenues		
General revenues:		
Property tax increment	\$3,600	\$2,896
Charges for services	1	88
Investment income	<u>262</u>	<u>428</u>
Total revenues	<u>3,863</u>	<u>3,412</u>
Expenses		
Development services	28	33
Redevelopment	1,475	1,614
Interest on long-term debt	<u>30</u>	<u>51</u>
Total expenses	<u>1,533</u>	<u>1,698</u>
Increase (decrease) in net assets	<u>\$2,330</u>	<u>\$1,714</u>

Financial Analysis of the Government's Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. All of the Agency's funds are classified as governmental funds.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8 million, an increase of \$2.2 million in comparison with the prior year. Unreserved fund balances totaled \$8 million which were available for spending at the government's discretion, while \$14,825 was reserved for prepaid items. The Agency designated \$0.6 million in unreserved fund balance for continuing appropriations for capital projects and City of Laguna Hill's housing set-aside funds. The remaining balance of \$7.4 million represented unreserved, undesignated fund balances.

The Low and Moderate Income Housing Fund, a special revenue fund, is used to account for funds that are set aside for low and moderate income housing, as well as related expenditures. At the end of the current fiscal year, this fund had fund balance of \$3.7 million, an increase of \$0.7 million. Tax increment increased by 22% from the prior year due to the previously healthy real estate market and redevelopment on El Toro Road. As was noted previously, tax increment received in the current year is related to the activity of the prior year, which is based on property taxes generated in calendar year 2007. Investment earnings decreased by 48% from the prior year as a result of the financial crisis and rapidly declining yields on investments. Expenditures decreased \$0.2 million from the prior year due to a combination of the prior year purchase of land and a new rehabilitation loan program that began during the current year.

The Debt Service Fund collects tax increment revenues, remits pass-through payments to other agencies, incurs interest costs, and funds operating costs in the Capital Projects Fund. At the end of the current fiscal year, this fund had fund balances of \$4.3 million, an increase of \$1.5 million. Tax increment increased by 18% due to similar reasons noted above, while investment earnings decreased by 32% as a result of the rapid decline in market interest rates. Expenditures increased \$0.1 million, mostly due to higher pass-through payments resulting from increased tax increment as is noted above. Transfers out increased by \$0.1 million as the Capital Projects Fund required reimbursement to cover the costs of operations and projects.

The Capital Projects Fund is the chief operating fund of the Agency. At the end of the current fiscal year, this fund had no fund balance, and its expenditures are funded each year by the Debt Service Fund. The Capital Projects Fund revenues decreased by a nominal amount, while expenditures increased by \$0.1 million. This increase was primarily due to a current year payment of a covenant agreement, with small variances originating from other operating activities. Interfund transfers of \$0.7 million were received from the Debt Service Fund to cover operations and capital costs.

Budgetary Highlights

In the Low and Moderate Income Housing Fund, budgeted expenditures exceeded actual amounts by \$0.8 million. This was primarily due to capital projects not completed for which budgets will be carried forward into the next fiscal year.

The Agency's Debt Service Fund reported budget savings of \$0.3 million as compared to actual amounts. This was attributable to the successful outcome of a lawsuit which relieved the Agency from making a payment to the State of California. Additionally, the funding transfer to the Capital Projects Fund was less than expected, as described below.

The Capital Projects Fund reported budgeted expenditures in excess of actual amounts by \$0.6 million. This variance was primarily due to projects that were not completed in the current year in which budgeted amounts will be carried forward into the next budget year.

Additional information on General Fund revenues and expenditures has been included in the Governmental Funds Financial Analysis of the Government's Funds Section.

Capital Assets

The Agency has no capital assets.

Long-term Debt

The Lake Forest Redevelopment Agency's only debt is a promissory note payable to the City of Lake Forest. For the fiscal year just ended, the amount of the promissory note was \$1.1 million.

Economic Factors and Next Year's Budgets and Rates

- The June 30, 2009, unemployment rate for the Agency was 6.5% as compared to the rate of 2.7% one year ago. The Agency's rate compares favorably to the State's average unemployment rate of 11.6% and the national average rate of 9.5%.
- The Agency's 2009-10 Budget takes into account the historical trends of the tax increment revenue and investment earnings. A modest 1% increase in tax increment was factored into the projections due to economic conditions relating to the time period correlating to the receipt from the County of Orange. The budget will be fully reviewed at mid-year to assess any effects to revenues resulting from the current economic situation.

All of these factors were considered in preparing the Agency's budget for the Fiscal Year 2009-10.

Requests for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Lake Forest Redevelopment Agency, 25550 Commercentre Drive, Suite 100, Lake Forest, California 92630.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2009

(With Comparative Totals for June 30, 2008)

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Assets:		
Cash and investments (note 2)	\$ 8,164,832	\$ 6,053,701
Receivables:		
Accounts	4,552	
Loans	102,000	
Prepaid items	<u>14,825</u>	
Total assets	<u>8,286,209</u>	<u>6,053,701</u>
Liabilities:		
Accounts payable	140,965	238,296
Non-current liabilities - due beyond one year (note 4)	<u>1,138,143</u>	<u>1,138,143</u>
Total liabilities	<u>1,279,108</u>	<u>1,376,439</u>
Net assets:		
Restricted for:		
Low and Moderate Income Housing	3,817,315	3,004,211
Unrestricted	<u>3,189,786</u>	<u>1,673,051</u>
Total net assets	<u>\$ 7,007,101</u>	<u>\$ 4,677,262</u>

See accompanying notes to basic financial statements.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

Statement of Activities

Year Ended June 30, 2009

(With Comparative Totals for the Year Ended June 30, 2008)

		Program Revenues			Net (expense) revenue and changes in net assets	
		Charges for	Operating	Capital	2009	2008
	<u>Expenses</u>	<u>Services</u>	<u>Contributions and Grants</u>	<u>Contributions and Grants</u>		
Governmental activities:						
Development services	\$ 28,327				\$ (28,327)	\$ (33,321)
Redevelopment	1,475,052	\$ 1,261			(1,473,791)	(1,526,807)
Interest on long-term debt	30,090				(30,090)	(50,722)
Total governmental activities	<u>\$ 1,533,469</u>	<u>\$ 1,261</u>			<u>(1,532,208)</u>	<u>(1,610,850)</u>
General revenues:						
Property tax increment					\$ 3,600,406	\$ 2,896,929
Investment income					261,641	427,774
Total general revenues					<u>3,862,047</u>	<u>3,324,703</u>
Change in net assets					2,329,839	1,713,853
Net assets, beginning of year					<u>4,677,262</u>	<u>2,963,409</u>
Net assets, end of year					<u>\$ 7,007,101</u>	<u>\$ 4,677,262</u>

See accompanying notes to basic financial statements.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

Governmental Funds

Balance Sheet

June 30, 2009

(With Comparative Totals for June 30, 2008)

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Totals	
				2009	2008
<u>Assets</u>					
Cash and investments (note 2)	\$ 3,736,935	\$ 4,323,377	\$ 104,520	\$ 8,164,832	\$ 6,053,701
Receivables:					
Accounts		4,552		4,552	
Loans	102,000			102,000	
Prepaid Items			14,825	14,825	
Total assets	\$ 3,838,935	\$ 4,327,929	\$ 119,345	\$ 8,286,209	\$ 6,053,701
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 21,620		\$ 119,345	\$ 140,965	\$ 238,296
Deferred revenue	102,000			102,000	
Total liabilities	123,620		119,345	242,965	238,296
Fund balances:					
Reserved for:					
Encumbrances			30,931	30,931	
Prepaid items			14,825	14,825	
Unreserved:					
Designated for City of Laguna Hills	61,311			61,311	40,496
Designated for unrealized investment gains					-56,683
Designated for continuing appropriations	490,000			490,000	378,981
Unreserved, undesignated	3,164,004	\$ 4,327,929	(45,756)	7,446,177	5,339,245
Total fund balances	3,715,315	4,327,929		8,043,244	5,815,405
Total liabilities and fund balances	\$ 3,838,935	\$ 4,327,929	\$ 119,345	\$ 8,286,209	\$ 6,053,701

See accompanying notes to basic financial statements.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

June 30, 2009

Fund balances of governmental funds	\$ 8,043,244
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(1,138,143)
Long-term loans receivable are not a current financial resource and are not reported in the governmental funds.	<u>102,000</u>
Net assets of governmental activities	<u>\$ 7,007,101</u>

See accompanying notes to basic financial statements.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2009

(With Comparative Totals For Year Ended June 30, 2008)

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Totals	
				2009	2008
Revenues:					
Taxes	\$ 923,613	\$ 4,162,842		\$ 5,086,455	\$ 4,278,423
Investment income	91,657	169,984		261,641	427,774
Other			\$ 1,261	1,261	88,000
Total revenues	<u>1,015,270</u>	<u>4,332,826</u>	<u>1,261</u>	<u>5,349,357</u>	<u>4,794,197</u>
Expenditures:					
Current:					
Development services			28,327	28,327	33,321
Redevelopment	304,166	549,458	657,595	1,511,219	1,202,240
Capital outlay			65,833	65,833	412,567
Debt service:					
Interest and fiscal charges		30,090		30,090	50,722
Pass-through payments		1,486,049		1,486,049	1,381,494
Total expenditures	<u>304,166</u>	<u>2,065,597</u>	<u>751,755</u>	<u>3,121,518</u>	<u>3,080,344</u>
Excess (deficiency) of revenues over (under) expenditures	<u>711,104</u>	<u>2,267,229</u>	<u>(750,494)</u>	<u>2,227,839</u>	<u>1,713,853</u>
Other financing sources (uses):					
Transfers in			750,494	750,494	590,402
Transfers out		(750,494)		(750,494)	(590,402)
Total other financing sources (uses)		<u>(750,494)</u>	<u>750,494</u>		
Net change in fund balances	<u>711,104</u>	<u>1,516,735</u>		<u>2,227,839</u>	<u>1,713,853</u>
Fund balances, beginning of year	<u>3,004,211</u>	<u>2,811,194</u>		<u>5,815,405</u>	<u>4,101,552</u>
Fund balances, end of year	<u>\$ 3,715,315</u>	<u>\$ 4,327,929</u>		<u>\$ 8,043,244</u>	<u>\$ 5,815,405</u>

See accompanying notes to basic financial statements.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY
Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2009

Net changes in fund balances - total governmental funds	\$ 2,227,839
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Amounts reported for governmental activities in the Statement of
Activities are different because:

Long-term loans are reported as expenditures when made and as
revenue when repaid in the governmental funds. However, there
is no impact in the Statement of Activities when loans are
made or repaid.

102,000

Change in net assets of governmental activities

\$ 2,329,839

See accompanying notes to basic financial statements.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY
Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual

Year Ended June 30, 2009

(With Comparative Totals For Year Ended June 30, 2008)

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)	2008 - Actual
	Original	Final			
Revenues:					
Taxes	\$ 800,000	\$ 923,600	\$ 923,613	\$ 13	\$ 754,429
Investment income	60,000	60,000	91,657	31,657	176,717
Other					68,000
Total revenues	<u>860,000</u>	<u>983,600</u>	<u>1,015,270</u>	<u>31,670</u>	<u>999,146</u>
Expenditures					
Current:					
Redevelopment	766,700	1,124,781	304,166	820,615	161,318
Capital outlay					326,000
Total expenditures	<u>766,700</u>	<u>1,124,781</u>	<u>304,166</u>	<u>820,615</u>	<u>487,318</u>
Net change in fund balances	93,300	(141,181)	711,104	852,285	511,828
Fund balances, beginning	<u>3,004,211</u>	<u>3,004,211</u>	<u>3,004,211</u>		<u>2,492,383</u>
Fund balances, ending	<u>\$ 3,097,511</u>	<u>\$ 2,863,030</u>	<u>\$ 3,715,315</u>	<u>\$ 852,285</u>	<u>\$ 3,004,211</u>

See accompanying notes to basic financial statements.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies

The accounting policies of the City of Lake Forest Redevelopment Agency (Agency) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the Agency's significant accounting policies:

(a) Description of the Reporting Entity

The Agency was activated in October 1995 by the City of Lake Forest pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law." The primary purpose of the Agency is to eliminate blighted areas by encouraging development of residential, commercial, industrial, recreational, and public facilities. The Agency is an integral part of the reporting entity of the City of Lake Forest. The funds of the Agency have been included within the scope of the basic financial statements of the City because the City Council exercises oversight responsibility over the operations of the Agency. The original plan is dated February 28, 1988 and has a life of 45 years.

Only the funds of the Agency are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Lake Forest, California.

(b) Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Agency reports the following major governmental funds:

The Special Revenue Fund is used to account for the 20% portion of the Agency's tax increment revenue that is required to be set aside for low and moderate income housing and related expenditures.

The Debt Service Fund is used to account for the accumulation of resources for the payment of principal and interest on long-term debt.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

The Capital Projects Fund is used to account for the financial resources used in developing the project area as well as the administrative expenses incurred in sustaining Agency activities.

(c) Budgetary Data

The Agency adopts an annual budget prepared on the modified accrual basis for all funds. The Executive Director is required to prepare and submit to the Agency Board of Directors the annual budget of the Agency and administer it after adoption. Any revisions that alter the total appropriations must be approved by the Agency Board of Directors. The Agency's level of budgetary control for the operating budget is within a department. Certain unexpended and unencumbered appropriations, which are available and recommended for continuation to the following fiscal year, are approved by the Agency Board for carryover. These commitments are reported as designations of fund balance. Encumbered appropriations lapse at year-end but are recommended to the Agency Board for carryover. Total expenditures may not legally exceed total appropriations at the department level.

(d) Tax Increment Revenues

Incremental property tax revenues are established pursuant to California Community Redevelopment Law and result from the excess of taxes levied and collected each year in designated project areas over and above the amount which would have been produced, at current rates, by the assessed value as shown on the last equalized property tax assessment roll prior to the effective date of the ordinance establishing the designated project areas

Incremental property taxes are considered as revenues of the project area when notification is received from the County of Orange and received in cash within 60 days of the fiscal year-end.

(e) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income and designated fund balance for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(e) Cash and Investments

Cash and investments are pooled with other City of Lake Forest funds for investment purposes, with interest being allocated quarterly to all funds legally requiring allocation and to other various funds at the direction of management based on average month-end pooled funds cash and investment balances. Interest income for cash and investments excluded from pooled cash is credited directly to the related fund. Investment policies applicable to the Agency's funds are those of the City of Lake Forest and are included in the notes to the City's basic financial statements.

(f) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

(g) Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenue and expenses during the reporting period. Actual results could differ from those estimates.

(h) Comparative Data

Comparative total data for the prior year has been presented in the accompanying basic financial statements in order to provide an understanding of changes in the Agency's financial position and operations.

Government-Wide Financial Statements

The Agency Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental Activities for the Agency.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets as well as long-term debt, if any, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Government-Wide Financial Statements, (Continued)

they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Agency can be reported in three categories: (1) Charges for services. (2) Operating grants and contributions. (3) Capital grants and contributions.

Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances within the Agency have been eliminated.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenditures, and Changes in Fund Balances for all major governmental funds. The Agency has presented all major funds that met the qualifications of GASB Statement No. 34.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except for revenues subject to accrual (generally 60-days after year end) are recognized when due. The primary revenue source susceptible to accrual is investment income.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Governmental Fund Financial Statements, (Continued)

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recognized when due.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

(2) Cash and Investments

Cash and investments as of June 30, 2009 consisted of the following:

Equity in City investment pool	<u>\$8,164,832</u>
--------------------------------	--------------------

Equity in the Cash and Investment Pool of the City of Lake Forest

The Agency has no separate bank accounts or investments other than in its equity in the cash and investment pool managed by the City of Lake Forest. The Agency is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Lake Forest. The Agency has not adopted an investment policy separate from that of the City of Lake Forest. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair market value.

(3) Interfund Transfers

Interfund transfers during the year ended June 30, 2009 consisted of the following:

<u>Transfer out</u>	<u>Transfer In</u>	<u>Total</u>
Debt Service Fund	Capital Projects Fund	<u>\$750,494</u>

The Debt Service Fund transferred money to the Capital Projects Fund to provide funding for redevelopment operations and capital improvement projects.

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

(4) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2009:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
Advance from City of Lake Forest	<u>\$1,138,143</u>	<u> </u>	<u> </u>	<u>\$1,138,143</u>

The City of Lake Forest General Fund has advanced money to the Agency to finance operations. The loan agreement provides for reimbursement to the City together with interest thereon at the same rate per annum as the City is receiving during such period on its investment portfolio. The repayment terms are indefinite and are dependent upon future tax increment receipts.

(5) Commitments and Contingencies

Rancho Cañada Financing Authority

Under the terms of a reimbursement agreement dated March 1, 2004, the Agency is a guarantor of the City's commitment to make lease payments to the Rancho Cañada Financing Authority that are sufficient in timing and amount to service the 2004 Certificates of Participation that were issued by the Authority in the amount of \$9,505,000.

The reimbursement agreement provides that to the extent necessary and to the extent that the Agency has available funds, the Agency will reimburse the City for its obligation to make lease payments to the Financing Authority.

As of June 30, 2009, the unpaid balance of the City's liability to make lease payments to the Financing Authority was \$8,545,000.

State of California

When adopting its budget for fiscal year 2009-10, the State of California reflected in that budget a shift of a significant portion of tax increment revenue from redevelopment agencies to school districts for fiscal years 2009-10 and 2010-11. The California Redevelopment Association has filed a lawsuit challenging the legality of this tax shift. The outcome of that lawsuit is not certain at this time.

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SUPPLEMENTARY INFORMATION

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

Debt Service

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2009

(With Comparative Totals For Year Ended June 30, 2008)

	Final Budget	Actual Amounts	Variances with Final Budget Positive (Negative)	2008 Actual
Revenues:				
Taxes	\$ 4,192,300	\$ 4,162,842	\$ (29,458)	\$ 3,523,994
Investment income	<u>146,000</u>	<u>169,984</u>	<u>23,984</u>	<u>251,057</u>
Total revenues	<u>4,338,300</u>	<u>4,332,826</u>	<u>(5,474)</u>	<u>3,775,051</u>
Expenditures:				
Current:				
Redevelopment	556,855	549,458	7,397	550,408
Debt service:				
Interest and fiscal charges	51,300	30,090	21,210	50,722
Pass-through payments	<u>1,736,000</u>	<u>1,486,049</u>	<u>249,951</u>	<u>1,381,494</u>
Total expenditures	<u>2,344,155</u>	<u>2,065,597</u>	<u>278,558</u>	<u>1,982,624</u>
Excess of revenues over expenditures	<u>1,994,145</u>	<u>2,267,229</u>	<u>273,084</u>	<u>1,792,427</u>
Other financing uses:				
Transfers out	<u>(1,151,500)</u>	<u>(750,494)</u>	<u>401,006</u>	<u>(590,402)</u>
Total other financing sources (uses)	<u>(1,151,500)</u>	<u>(750,494)</u>	<u>401,006</u>	<u>(590,402)</u>
Net change in fund balances	842,645	1,516,735	674,090	1,202,025
Fund balances, beginning	<u>2,811,194</u>	<u>2,811,194</u>		<u>1,609,169</u>
Fund balances, ending	<u>\$ 3,653,839</u>	<u>\$ 4,327,929</u>	<u>\$ 674,090</u>	<u>\$ 2,811,194</u>

CITY OF LAKE FOREST REDEVELOPMENT AGENCY
Capital Projects Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances -
 Budget and Actual

Year Ended June 30, 2009

(With Comparative Totals For Year Ended June 30, 2008)

	Final Budget	Actual Amounts	Variances with Final Budget Positive (Negative)	2008 Actual
Revenues:				
Other		\$ 1,261	\$ 1,261	\$ 20,000
Expenditures:				
Current:				
Development services	\$ 88,300	28,327	59,973	33,321
Redevelopment	973,592	657,595	315,997	490,514
Capital outlay	351,200	65,833	285,367	86,567
Total expenditures	<u>1,413,092</u>	<u>751,755</u>	<u>661,337</u>	<u>610,402</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,413,092)</u>	<u>(750,494)</u>	<u>662,598</u>	<u>(590,402)</u>
Other financing sources (uses):				
Transfers in	<u>1,151,500</u>	<u>750,494</u>	<u>(401,006)</u>	<u>590,402</u>
Total other financing sources (uses)	<u>1,151,500</u>	<u>750,494</u>	<u>(401,006)</u>	<u>590,402</u>
Net change in fund balances	<u>(261,592)</u>		<u>261,592</u>	
Fund balances, beginning				
Fund balances (deficit), ending	<u>\$ (261,592)</u>		<u>\$ 261,592</u>	

CITY OF LAKE FOREST REDEVELOPMENT AGENCY

Special Revenue Fund

**Computation of Low and Moderate Income Housing Fund -
Excess Surplus**

June 30, 2009

Fund Balance - June 30, 2009		\$ 3,715,315
Less Unavailable Amounts		<u> </u>
Available Low and Moderate Income Housing Funds		3,715,315
Limitation (Greater of \$1,000,000 or Four Years Set-Aside):		
Set-aside for last four years		
2008 - 2009	923,613	
2007 - 2008	754,429	
2006 - 2007	632,692	
2005 - 2006	<u>550,783</u>	
Total set-aside for last four years	<u>2,861,517</u>	
Base limitation	<u>1,000,000</u>	
Greater Amount		<u>2,861,517</u>
Computed Excess Surplus - June 30, 2009		<u>\$ 853,798</u>

COMPLIANCE SECTION

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Board of Directors
City of Lake Forest Redevelopment Agency
Lake Forest, California

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities and each major fund of the Lake Forest Redevelopment Agency (Agency), a component unit of the City of Lake Forest, California, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and noncompliance which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally



Board of Directors
City of Lake Forest Redevelopment Agency
Lake Forest, California
Page Two

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters we reported to the management of the City in a separate letter dated December 21, 2009.

This report is intended solely for the information and use of the management of the Agency, the Board of Directors, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman McCann P.C.

Irvine, California
December 21, 2009